

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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December Cotton Update

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Report Highlights:

India's 2011/12 cotton production is now expected to reach 34.25 million 170 kg bales (26.75 million 480 lb bales), 750,000 bales lower than the previous FAS Mumbai estimate. Arrivals continue to lag behind the year-ago pace and weather conditions in the key producing state of Maharashtra have been less than favorable.

General Information:

Arrivals Continue to Lag

As of December 25, 2011, the Cotton Corporation of India reported that India's 2011/12 cotton arrivals had reached 8.8 million 170 kg bales, just 25 percent of the FAS Mumbai estimated crop of 35 million 170 kg bales. The pace of arrivals continues to significantly lag the 2010/11 pace of 11.8 million 170 kg bales or 36 percent of the 2010/11 crop of 32.5 million 170 kg bales. For the most recent week, arrivals accelerated to around 200,000 bales per day, but still lagged the 2010/11 pace. The slow pace of arrivals is beginning to raise questions about the accuracy of prior crop estimates. India's Cotton Advisory Board estimated the crop at 35.6 million 170 kg bales on November 15, 2011, and some trade estimates had placed the crop above 36 million 170 kg bales.

As reported previously in several reports, there appear to be two main factors that are slowing the pace of arrivals, the delay in the onset of harvest and farmers holding cotton.

Harvest Delay

Planting and the onset of harvest was delayed by up to a month in key growing regions. India's cotton harvest is prolonged by multiple pickings and is spread over weeks or months. Consequently, a three to four week delay in harvest will extend harvesting operations into January and possibly February for some pickings. Many factors affect the number of pickings a farmer will try to coax from his or her plants including the weather, cotton prices, winter (rabi) planting intentions and the cost and availability of labor (see our November update for more background on pickings). As demonstrated by the pace of 2010/11 arrivals, it is not uncommon for the majority of India's cotton crop to be on farm or on the plant at this time of year. Recent field travel suggests that farmers are having increasing difficulty finding labor to harvest their cotton crop which could be affecting the pace of harvest. In some areas of central India, scarce labor supplies were reportedly allocated to the harvest of soybeans before the harvesting of cotton.

Farmers Holding Cotton

There has been considerable media attention devoted to the notion that farmers are withholding cotton in an effort to secure higher market prices, press for a higher minimum support price or obtain a federal or state-level relief package. There appears to be widespread consensus within the industry that farmers are holding onto cotton in an effort to wait and see if prices improve. Given the high prices that many farmers received in 2010/11, many are in a position to delay the delivery of their cotton. Nevertheless, arrivals in some states have exceeded the year-ago pace or are inching closer to the year-ago pace, suggesting that optimistic crop forecasts for those states may have been accurate.

The pace of arrivals is slow in Gujarat and Maharashtra, India's largest cotton producing states. Field travel to Gujarat in November confirmed that the onset of harvest was delayed by as much as a month, but the crop was maturing under good conditions. In Gujarat, the slow pace of arrivals may largely be a reflection of the late harvest coupled with some farmer holding in anticipation of higher prices.

Arrivals in Maharashtra are only 50 percent of the year-ago pace and account for half of the difference in the total year-to-year pace of arrivals. Farmers in Maharashtra have been the primary advocates for a higher

minimum support price or relief package. Yields are typically lower in Maharashtra and weather conditions in the cotton growing region of Vidarbha have reportedly not been ideal. Farmers were likely holding onto their cotton in an effort to secure some type of relief. In mid-December, the Government of Maharashtra announced a \$385 million relief package for producers of a variety of crops including cotton. The details of the program have not been announced. It remains to be seen if the announcement of the package will accelerate the pace of arrivals in Maharashtra. However, given the pace of arrivals thus far and the persistent reports of less than ideal growing conditions, it appears that cotton production in Maharashtra is likely lower than originally estimated.

Indian Cotton Arrivals as of December 25, 2011
(Thousands of 170 kg bales)

| State | 2010/11 | 2011/12 |
|----------------|---------------|--------------|
| Punjab | 953 | 749 |
| Haryana | 669 | 670 |
| Rajasthan | 524 | 567 |
| Gujarat | 3,720 | 2,902 |
| Maharashtra | 2,772 | 1,417 |
| Madhya Pradesh | 707 | 621 |
| Andhra Pradesh | 1,851 | 1,304 |
| Karnataka | 362 | 268 |
| Tamil Nadu | 83 | 55 |
| Orissa | 45 | 31 |
| Others | 103 | 80 |
| Loose Lint | 0 | 146 |
| Total | 11,789 | 8,810 |

China and Local Mills Buy

Reported data indicate that China imported 730,000 170 kg bales of cotton from India during November. Exports to China during December will likely be larger. China appears to be the primary foreign buyer of Indian cotton as demand from other markets is reportedly weak. It appears that local textile mills have started to buy more aggressively as yarn stocks have been worked off and spinning margins have improved. Polyester continues to be cheap relative to cotton which could generally dampen cotton demand from textile mills.

In summary, while the cotton situation is largely unchanged from the November update, FAS Mumbai recommends a revision of the 2011/12 cotton production estimate to 34.25 million 170 kg bales (26.75 million 480 lb bales) due to lower estimated production in Maharashtra. All other estimates remain unchanged from our November report and FAS Mumbai recommends that the production reduction be offset by a reduction in ending stocks.

